Succession 6 – Contingency Planning

The keeper will not always keep going.
Be prepared for a transition to the next star to backstop your team.

Patrick Roy backstopped the Montréal Canadiens to a Stanley Cup victory in 1993, gaining the Con Smythe award for playoff MVP in the process. A couple of years later, his team found itself in need of a new coach, and somehow decided to hire Roy's long-time nemesis, Mario Tremblay, as head coach. This proved to be an ominous decision that still haunts them to this day. Roy and Tremblay had roomed edgily together before as teammates, and so repulsed each other that they reportedly nearly came to heated fisticuffs in public a few times over the years.

But the incident that sent Patrick Roy forever out of the famous red jersey was an ugly 11-1 blowout on December 2, 1995, in which the coach he despised refused to change him out during an obvious off night. The incident humiliated Roy so much that in the middle of the game, he skated right past the coach and spoke directly to the team owner, announcing that he would never play for the Habs again. This was unheard of. Players might routinely make such demands today, but back then it was not done. Roy received a trade that very week, and was panned in the press as a whiner.

The revenge of St. Roy was decisive, winning the Stanley Cup his new team, the Colorado Avalanche, that very same year and then again a few years later. Montreal has not been so lucky -- the most storied team in NHL history has yet to repeat as league champion since Roy stormed off the ice as their keeper. Today, Roy is considered the most successful goaltender in history, and has a world of imitators using the "butterfly" style he made perfect.

Now, 21 years later, Le Canadien once again have a star goalie who may very well lead them on to glory. A little more careful planning at the top might have made for a more rewarding outcome over the last two decades. The longest drought in Hab (and Canadian) history is seriously overdue for fixing.

So it is with the succession in the leadership of a family business. Past glory is no guarantee of future success. It takes a little insightful planning to keep it all rolling.

Contingency planning

Businesses should anticipate unplanned events. Contingency planning, a sort of flowchart for the unexpected, is an integral part of any business planning. The level of contingency planning conducted is dependent on the amount of risk an owner is willing to accept, or ignore.

Some of the basic components of a contingency plan include:

Leadership succession

It is not always feasible for small businesses to have adequate leadership ready to take over if the owner isn't able to lead, but as businesses grow, management layers typically deepen. Grooming a broad management team that can eventually function autonomously mitigates operational risk and increases the value of the business. Key employees can be compensated appropriately and engaged. Some owners even provide key leadership employees with small share incentives to plant the seeds of succession.

Updated Will and estate planning

An owner's Will and estate plan should be up to date and consistent with his/her business succession plan. If the owner were to pass away prematurely without proper planning and communication, there could be a dispute between the children on who steps into the leadership position.

Life insurance for liquidity protection

Death is usually a tax-triggering event and could put a family in the position of an untimely sale of assets to fund taxes. Life insurance protects against this and also ensures that shareholders and estates don't awkwardly continue jointly owning the business. One could also consider estate freeze planning to limit the owner's taxes at death, the subject of another article entirely.

Shareholders' agreements

This agreement governs the business relationship between shareholders. Three key areas that the agreement should cover are:

- Voting and other control provisions
- Buy and sell options between shareholders
- The entry of new shareholders, including children, into the business.

Disability planning

It's important to create a management team that is aware of the critical functions of the business and who can effectively cover the owner's responsibilities if the owner is incapacitated. It is also important to have an updated Power of Attorney and appropriate disability and critical illness insurance coverage.

Diversification

Many business owners have most of their wealth tied up in just one asset – their business. Unexpected economic or industry downturns can dramatically impact the owner's wealth and future lifestyle. During good times when the business is growing and is profitable, consider "taking some money off the table" and diversify into other non-business assets (i.e. marketable securities, real estate, life insurance, etc.).

Families should openly discuss these risks and contingencies to be properly prepared. These business issues can become family issues very quickly.

Where opinions are given they are those of the writer and not RBC Dominion Securities. Readers should consult their own legal or tax professionals before proceeding with a strategy.

Mark Ryan is an advisor in Prince George with RBC Wealth Management, Dominion Securities, and can be reached at Mark.Ryan@rbc.com or 250-960-4927.